ESB International Ltd
Stephen Court, 18/21 St Stephen's Green, Dublin 2, Ireland
Telephone +353-1-703 8000 **Fax** +353-1-703-7097
www.esbi.ie

24 November 2009

Sarah Friedel
NIAUR
Queen's House
Upper Queen Street
Belfast BT1 6EQ

John Lynch,
CER
The Exchange
Belgard Square North
Tallaght, Dublin 24

Draft Transmission Loss Adjustment Factors for 2010

Dear Ms Friedel and Mr Lynch:

Thank you for providing us with the opportunity to respond on this consultation paper (SEM-09-102).

ESBI has no objection to all or part of this document being published by the Regulatory Authorities (RAs).

Introduction

ESBI wishes to comment on the fact that, yet again, Coolkeeragh (CESB) has been given the most punitive TLAF in Northern Ireland and the second worst of the SEM CCGT's. This adversely affects our competitiveness in the marketplace.

While there may be genuine reasons for this, such reasons are not known to ESBI, and thus ESBI requests the RAs to ensure they are satisfied that the TLAFs proposed for CESB, as for any other power station in the SEM, are fair and reasonable compared to other generators, and based on sound and objectively verifiable criteria.

Otherwise, ESBI believes that it is economically inefficient and unfair to allocate transmission losses across generation on a locational basis and to exclude demand from the allocation of variable transmission losses.

Additionally, ESBI would like to remark that generators have experienced unexpected changes in TLAFs in recent years. These swings negatively affect the financial assessments of all projects and reduce the likelihood of generation development on the island.

Volatility and lack of transparency of the current methodology are a most serious concern that should be analysed by the RAs.

Registered Office 18/21 St Stephen's Green, Dublin 2, Ireland **Registered in Ireland No.**137737

Recommendations

ESBI would like to propose the following recommendations:

- Choice of methodology: The SEMC should publish its final decision about the future high level design for TLAFs (SEM 09-060) after reviewing the proposals and answers from the market agents.
- Analysis of the results of current methodology: after two years and a half within SEM it could be valuable to check if the objectives of the TLAF methodology have been achieved. This would mean reviewing actual transmission system losses and the impact which TLAFs have had on transmission losses.

  In terms of the generation load profile provided, we believe this profile should be tested against the historic running regime in the SEM in order to validate their accuracy.
- Reduce the volatility: ESBI position about the future TLAF is the methodology based in zonal losses adjustment factors could be the most appropriate. The loss factors of each zone should be stable in a mid term period and could vary daily and even seasonally and could have two terms (one fixed and other variable). The number of zones should be as lower as possible (one for NI and two-tree in ROI)
- New generators TLAF: We believe that estimated TLAF for the new generators which will be connected next year (Aghada and Whitegate) should be included, so other market participants can assess the likely impact of these new plants.
- Allocation of costs: As the end user ultimately pays all such charges there is an argument that the cost of all losses should be allocated on the demand side. If part of the cost of transmission losses continues to be allocated to Generators, then the methodology chosen should recognise that such losses arise on both a fixed and variable basis. This could be done by allocation of the losses on a partially fixed (postalised) basis and a partially variable basis. The proposed arrangement for BETTA is a 50:50 split and this approach is recommended for SEM.
- Incentive to reduce losses: TLAF signals should be liked to transmission investment plans and to SOs incentives e.g. allocation of part of the cost of losses to TSOs, or a TSO revenue mechanism to include incentives and penalties.
- Increase transparency. The process to determine the TLAF should trace the following steps:
  - ❖ Provide a detailed justification of the hypothesis considered. (e.g. demand, availability, fuel prices, transmission constraints, operating reserve, wind factor and capacity, ..)

In particular for the next year we would appreciate detailed information and justification about the following hypothesis: Moyle flow, renewable load factor and capacity, availability considered for the main generators.

- Publish the grid model used in a public format.
- Prepare the TLAF figures with the enough time in order to the market agents could replicate the calculation of these numbers with the information detailed above.

Please don't hesitate to contact me if you require any clarification.

Kind regards

Ramon Cidon

Market Strategy Manager, Independent Generation
ESB International.